



STATE OF WISCONSIN
Department of Employee Trust Funds

David A. Stella
SECRETARY

801 W Badger Road
PO Box 7931
Madison WI 53707-7931

1-877-533-5020 (toll free)
Fax (608) 267-4549
<http://etf.wi.gov>

February 13, 2009

Dear Wisconsin Retirement System (WRS) Active Employees:

The WRS 2008 effective rates are:

Core Fund effective rate: 3.3%
Variable Fund effective rate: - 40%

The effective rate is the rate of interest that is applied to WRS active and some inactive employee accounts. The effective rates are based on trust fund investment performance as of December 31 of each year and reserves from previous years. For 2008, trust fund investment returns were **-26.2%** for the Core Fund and **-39%** for the Variable Fund.

The effective rate is applied to your 2008 account balances. You will see this updated information in your January 1, 2009 *Statement of Benefits*, set for distribution in April. *Note: These rates are the starting point for calculating WRS retirees' annuity adjustments, which the Department and the WRS actuary will determine and announce in mid-March.*

Core Fund Effective Rate

You may wonder why the Core Fund effective rate is 3.3%, when the fund actually experienced a 26.2% decrease. Investment increases and decreases in the Core Fund are spread (or "smoothed") over a five-year period. This means that in years with good investment returns the Core Fund effective rate will normally be less than the actual investment returns, but in years with poor returns the effective rate will normally be higher than that year's actual investment returns.

Because of smoothing, only 20% of the Core Fund's approximately 26.2% decrease is recognized in the 2008 effective rates. The remainder will be spread out in equal increments over the next four years. Keep in mind that Core investment results from 2004-2007 (all of which were increases) are simultaneously being recognized and, therefore, will help dampen year-to-year volatility.

Variable Fund Effective Rate

While Core Fund investment returns are smoothed over a five-year period, by law the Variable Fund investment returns (increases and decreases) must be fully recognized each year. Members who elected to participate in the Variable Fund experience effective rates that are closer to actual Variable Fund investment returns. The Variable Fund is an all-stock fund. Therefore, volatility in this fund is not new. Depending on when you elected to participate in the Variable Fund, you may have also experienced many years of positive effective rates, such as the 34% effective rate in 2003 and the consecutive years of double-digit effective rate increases in the 1990s (most of which were well over 20%). Conversely, the Variable Fund has experienced a number of years with negative effective rates, including a 23% decrease in 2002.

If you are unsure whether you participate in the Variable Fund, check your most recent WRS *Statement of Benefits* which you received in 2008.

For more information about the Variable Fund, visit the *Variable Fund Information* menu in the **What's New** section of our Internet site at <http://etf.wi.gov>.